

**MINUTES OF OCTOBER 10, 2013 RETIREMENT BOARD
CITY OF ALEXANDRIA
FIREFIGHTERS AND POLICE OFFICERS PENSION PLAN
INTERIM MEETING**

PRESENT

<u>Members</u>	<u>Others</u>
Michael Cross ⁴ (Fire)	Steven Bland, Retirement Administrator
Patrick Evans ^{2,3} (Fire)	Bryan Capelli, Retirement Specialist
Mark Jinks (Management)	Kadira Coley, Retirement Specialist
Jean Kelleher (Management, Alternate)	
Shirl Mammarella ⁴ (Police, Alternate)	
Ed Milner ^{1, 2, 3} (Police)	
Rick Muse, (Fire, Alternate)	
Laura Triggs ^{1,4,5} (Management)	

Absent:

Tom Gates Chairman, (Management)

Morgan Routt^{1,5} (Management)

Al Tierney (Police)

¹ Adjustment Mechanism

² PLOP/DROP Committee

³ Purchase of Service Credit Committee

⁴ Technical Corrections Committee

⁵ Training Opportunities Committee

⁶ Vendor & Service Provider

CALL TO ORDER

Mr. Cross conducted the meeting, as Chairman Gates was absent.

The meeting was called to order at 8:37 AM on October 10, 2013.

MEETING RECORD

There was a motion by Ms. Triggs to:

Approve the September 12, 2013 minutes.

Mr. Jinks seconded the motion.

The motion was approved (3 – 0.) Mr. Cross was absent from the September meeting and abstained.

Mr. Muse arrived at 8:43 AM.

ADMINISTRATOR'S REPORTS

Two columns have been added: 1) target allocation, and 2) actual allocation. Rebalancing is not required at this time. (Handout 2 (a) (i))

Hamilton Lane II B – the secondary fund – has now called over 88% of the committed assets. Distributions significantly exceed contributions. (Handout 2 (a) (ii))

Hamilton Lane VIII had its first close and funds were called just prior to the September meeting, and again since that time. (Handout 5 (a) (iii) (2))

Mr. Evans arrived at 8:48 AM.

FOLLOW UP

The Follow-Up Items were discussed. The securities lending contract has been signed by the City and by Comerica.

SHORT SALES

At the November 14th meeting Ryan Larson from Research Affiliates will present an update on the Supplemental Plan's emerging market investments. He will also provide an educational session on long-short funds. Staff provided a high level overview of long-short funds. (Handout 2 (b) (iii))

Ms. Kelleher arrived at 8:52 AM.

RECOMMENDED MOTION

Staff pointed out that some motions for travel & course registration expense for educational programs have not included per diems. Staff recommends a motion that would serve as a standing order to include a per diem in all travel and registration motions. The per diem should be at the City rates. Mr. Cross recommended that the motion also include travel and course registration be consistent with City Administrative Regulations.

There was a motion by Mr. Jinks to:

All motions to approve or reimburse travel expense or course registration for educational sessions shall automatically be extended to include per diems. All payments from the trust assets for travel expense or course registration for educational sessions are to be processed in compliance with the City's Administrative Regulations.

Ms. Kelleher seconded the motion. The motion passed unanimously (6 – 0).

Mr. Milner arrived at 8:57 AM.

OLD BUSINESS

FARMLAND

Following the plan's commitment to the Hancock farmland partnership the fund dissolved for lack of critical mass. Dahab associates and staff were asked to monitor farmland prospects. Staff reported that there were two potential funds that they had been reviewing that might merit further review. Staff will discuss this with the chairman and discuss the possibilities of scheduling meetings with the farmland managers.

ICMARC UPDATE

Ms. Coley provided a status report on the conversion from Prudential to ICMARC. Preparation for the transition is progressing. Assets should be transferred to ICMARC in mid-November.

ADJUSTMENT MECHANISM

Staff referenced page 21. The "Sixth Amendment" would be renamed "Fifth Amendment." On page 27 the 23.98% should be changed to 24.73%.

There was a vote of membership to determine support of the proposal. Over 62% voted. Of those who voted, 82.9% were in favor and 17.1% opposed.

Ms. Mammarella asked about the unfunded liability. The unfunded liability was roughly \$40 million in 2004. Ms. Triggs said the City was assuming responsibility for funding the unfunded liability as of the June 30, 2011 valuation, which was roughly \$70 million. Future increases in the unfunded liability (from gains and losses) are subject to contribution increases for both the City and plan participants.

Ms. Mammarella said that I might not disagree with the content of the changes as much as the process. She believes that the presentations were biased and that the vote was accurate because of that. She also would have like to see the draft Memorandum of Understanding Agreement (MOA) was not included in the information that went out for the vote. Chairman Cross echoed some of Ms. Mammarella's views. It was said that the MOA could not go out in draft form.

It was questioned whether the workgroup of employee representatives and the management group was appropriate. Mr. Milner reminded the Board that the issue was once in the Board's bailiwick but that the Board voted to refer the issue to the workgroup.

Mr. Cross expressed that the membership voted on a plan amendment that was too difficult to understand. He asked about the remaining schedule. Ms. Triggs said there is a meeting October 16th in the Sister City Room 1101 at 11 AM. This, along with quite a few other meetings, continue to serve the 60-day notice rule. The Plan amendment will go to City Council October 22nd. The Memorandum of Understanding must be signed.

DIVERSIFICATION

Staff discussed diversification.

Page 60 of the board packet illustrates the performance of the Dow Jones industrial average over nearly 100 years. The historical perspective shows domestic equities are closer to the top of the range than to the bottom.

Page 61 is a write up on a National Association of State Retirement Administrators' asset allocation survey. The average state plan has 51.1% in publicly traded equities (excluding private equity). This number has come down over the last decade.

Page 62 demonstrates that risk is not proportional to allocation within a portfolio. Equities are responsible for more than their share of risk, and fixed income less.

Page 63 is a spreadsheet displaying the asset allocation of our peer public pension plans in Virginia. Averages are displayed for Dahab and non-Dahab clients. Staff stressed that asset allocation should reflect a plan's characteristics and not that of the investment consultant.

Pages 64 & 65 display some asset classes with low correlations to equities. The timber target allocation is helpful, but the weighting is modest.

Pages 66 & 67 display the liquidity of various investments. There are a number of investment opportunities that are quite liquid.

Page 68 sites a recent study showing county and city pension plans are reducing exposure to domestic equities.

Pages 69 through 73 portray various portfolio mixes and how they might hold up in an adverse investment environment.

Page 74 proposes to phase in a more diversified portfolio with less emphasis on equities over a period of time. Page 75 is a collection of comments and disclosures

A similar presentation was made to the Supplemental Retirement Plan the previous week. At that time Mr. Gates suggested the next steps are to first create a strategy and then second to complete the package with specific recommendations. Page 76 lists some consideration in developing a strategy followed by tactical steps that might be helpful executing the strategy.

Mr. Cross asked for risk measures of the various asset classes. Staff said that risk is easily measured for each class in a vacuum. However, in the portfolio context, each asset class should be viewed as to how its inclusion impacts the portfolio. For example, in a vacuum, commodities are very volatile. However, in an inflationary environment most investments have fared badly and commodities typically have done quite well. A measure of risk might be the efficient frontier with and without the asset.

Staff is asked to provide:

- A slide with page 69 & 74 side by side
- A measure of risk for current and prospective asset classes
- A calculation of historic returns for portfolios with lower equity exposure (back-testing)

- A calculation of three & five year returns using active versus passive funds
- A collection of short articles on anticipated economic environments and expected future returns

NEW BUSINESS

There was no new business.

NEXT MEETINGS

1. Sunday – Monday, October 20 – 21, Association of Municipal Retirement Systems of Virginia (AMRS-VA), Alexandria 4641 Kenmore Ave Alexandria, VA 22304, Sunday 1:00 PM until Monday noon
2. Thursday November 14th 8:30 at AM, Sister Cities 1101, Due Diligence Meeting

Staff asked members to bring their calendars to the November meeting to help set a schedule of 2014 meetings. Also, if departments have special ceremonies or events on the second Thursday of any months, please bring that information to the meeting.

ADJOURNMENT

There was a motion by Mr. Jinks to:

Adjourn.

Ms. Triggs seconded the motion.

The motion was approved unanimously (7 – 0). The meeting adjourned at 10:03 AM.

HANDOUTS

Distributed to Board members in the Board Packet:

1. Agenda
2. Minutes of Prior Meeting [1(a)]
3. Monthly Investment & Rebalancing Report [2(a)(i)]
4. Private Equity Report Cash Flows [2(a)(ii)]
5. Follow Up items [2(b)(ii)]
6. Short Sales [2(b)(iii)]
7. Recommended Motions [2(c)]
8. Draft Fire & Police Officer Pension Plan Amendment [3(c)]
9. Draft Memorandum of Agreement [3(c)]
10. Proposed Changes [3(c)]
11. Adjustment Mechanism Proposed Changes [8(b) Exhibit 2]

12. New Disabilities by Year & Classification [3(c)]
13. Email – Vote on Adjustment Mechanism [3(c)]
14. Diversification [3(d)]